India Inc. to report stable credit metrics in FY2025: ICRA

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ICRA expects the revenue growth for India Inc. to taper in Q1 FY2025. While signs of a revival in rural demand have emerged, headwinds such as a slowdown in the Government of India's (GoI) spending during the Parliamentary elections and onset of monsoon period are likely to weigh on growth in H1 FY2025. Nevertheless, a pick-up in growth is likely in H2, owing to back-ended rise in GoI spending and private capital ependiture (capex), as well as improvement in rural demand in case the monsoon is favourable. The operating profit margin (OPM) for H1 FY2025 is expected to remain steady in the range of 15-18%, despite the expected tapering in revenue growth, as raw material costs are expected to remain firm. As a result, the credit metrics of India Inc. in H1 FY2025 are estimated to remain largely stable with the interest coverage ratio in the range of 4.7-5.0 times.

Rural demand is likely to witness a meaningful recovery only in H2 FY2025, once there is some visibility around the kharif crop output and farm cash flows. Urban consumption is projected to remain upbeat, albeit uneven in FY2025, with high-income households and new entrants into formal labour markets driving demand. The recent tightening of norms for personal loans and credit cards by the Reserve Bank of India (RBI) could adversely impact credit growth for these segments, which may weigh on discretionary consumption.

Over the near term, geopolitical developments and fears of a growth slowdown across the globe may adversely impact consumer sentiments, thereby upsetting the current steady demand. Accordingly, earnings and credit metrics uncertainty persist in the near term. However, from H2 FY2025, India Inc. is expected to report improved credit metrics owing to increased GoI spending, private capex and improvement in rural demand backed by a favourable monsoon. The aggregate revenues of 558 listed companies evaluated by ICRA (excluding financial sector entities) expanded by 3.7% YoY during FY2024 with a modest margin improvement. The YoY revenue growth was curtailed to an extent by a general decline in realisation levels amid softening input costs (mainly raw materials) for most sectors.

The revenue growth for Corporate India in FY2024 was supported by healthy demand in consumer-oriented sectors like airlines, hotels and automotive. In addition, the growth in power and construction sectors was strong. The YoY revenue expansion was curtailed to an extent by a decline in realisation levels amid softening input costs (mainly raw materials), largely for sectors like fertilisers and chemicals, which also faced a demand slowdown due to channel inventory destocking. The growth is expected to marginally slow down in H1 FY2025, on a relatively high base, amidst a temporary pause in the infrastructural activities for a major part of H1 FY2025 due to the General Elections and the dependency of rural demand on the monsoon. Moreover, the concerns of the ongoing geopolitical tensions may adversely impact demand sentiments, especially for export-oriented sectors like auto and auto components, apparels, IT services and agro-chemicals. The ongoing conflicts between Israel and Palestine as well as Russia and Ukraine, along with related political tensions in these markets, remain key concerns for the global economy. Interest rates in developed markets have remained elevated and are likely to remain so, given the sticky inflation levels. While the failures of certain banks did not lead to a contagion impact, the risk remains. Further, global trade patterns are directly driven by trade policies of member nations. These have strained lately due to rising protectionism, which could impact India's exports in the near to medium term. Rising interest rates and moderation in demand, specifically in the US, Chinese and European markets, have together led to concerns of growth slowdown in some major global economies. This has had the contagion impact of inventory build-up and, thus a reduction in realisations.

ICRA's analysis of the FY2024 performance of 558 listed companies (excluding financial sector entities) revealed expectedly improved OPM, increasing by 180 bps to 17.4% on a YoY basis. This was primarily aided by the softening in commodity prices and benefits of operating leverage. Sectors like airlines, auto, power, pharmaceuticals and metals & mining reported YoY improvement in OPM on the back of gradual price hikes undertaken and softening of input costs, however, some others like chemicals and fertilisers reported YoY contraction due to weak demand for these sectors. While the input costs softened in recent months, they remained higher compared to the historic levels, and accordingly, India Inc.'s OPM is yet to revive to its historic highs (18-19% seen in FY2022).

The interest coverage ratio of ICRA's sample set companies, adjusted for sectors with relatively low debt levels (IT, FMCG and pharma), remained rang-bound at 4.6 times in FY2024. With the Monetary Policy Committee (MPC) having taken a pause on rate hikes since its April 2023 meeting, India Inc.'s interest coverage is expected to remain largely stable in the near term.

India Inc. reported a marginal increase in debt levels in FY2024 on a YoY basis. The increase in debt levels were predominantly in sectors like gems and jewellery, construction, sugar, chemicals (due to increase in working capital requirements). Despite the variations in debt levels across sectors, India Inc. reported largely stable credit metrics over the recent past. The improvement in earnings on the back of recovery in demand across sectors arrested any sharp increase in Total Debt/OPBITDA levels of India Inc. during FY2024 (total debt/OPBITDA at 3.3 times in

FY2024, against 3.7 times in FY2023).

The indebtedness trends have been divergent across sectors, with five sectors - ferrous and non-ferrous metals, telecom, power, and oil and gas - accounting for ~69-70% of ICRA's sample set companies' debt. Capacity expansion being undertaken in ferrous and non-ferrous metals as well as the power sector drove debt addition in FY2024. Debt movement in the oil and gas sector was volatile, with working capital requirements changing in line with variations in crude prices, refining and marketing margins.

In addition to the slowdown in budgeted growth, the Parliamentary Elections in early-FY2025 may impact the momentum of the GoI's capex during H1 FY2025. Thereafter, with the monsoon setting in from June, project execution and construction activities are perceived to have slowed down, suggesting that capex may display a back-ended pick-up in FY2025. However, despite expectations of some debt addition to support growth prospect,s India Inc. is expected to report stable credit metrics, going forward.